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Development Cooperation Forum

Trends and progress in international development cooperation

Report of the Secretary-General

Summary

In accordance with General Assembly resolution 61/16, the present analytical background report of the Secretary-General is submitted for the consideration of the Development Cooperation Forum. The report builds on discussions at the official launch of the Forum at Geneva on 5 July 2007 and at the nationally led high-level symposiums held in Vienna on 19 and 20 April 2007 and in Cairo on 19 and 20 January 2008.

The main findings of the report are:

(a) Despite progress in some areas of the global partnership for development, agreements on trade and investment as well as on the participation of developing countries in international economic decision-making are not living up to expectations. Overall, progress has not been sufficient to ensure that development cooperation will produce rapid progress towards the realization of the internationally agreed development goals, including the Millennium Development Goals;

(b) Official development assistance, excluding debt relief, has grown at less than half the rate needed to reach the Gleneagles target of $130 billion by 2010. Most donors are not on track, and most are not planning sufficiently far ahead to meet their targets. Meanwhile, increased flows from sources not part of the Organization for Economic Cooperation and Development Development Assistance Committee are helping to diversify financing while also adding to the complexity of international development cooperation;

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(c) Aid allocation is not sufficiently conducive to the achievement of the internationally agreed development goals. While a higher proportion of aid is going to the poorest countries, allocations are often not adequately based on needs, results or the vulnerability of countries to exogenous shocks. Growing aid flows to the social sectors and governance have mirrored declines in allocations to infrastructure and production. Particularly significant is the decline in agricultural aid. Moreover, development cooperation in the form of budget and sector support is growing only slowly;

(d) The adoption of the Paris Declaration on Aid Effectiveness marked a step change in the articulation of benchmarks for progress, yet negotiations did not engage the full range of stakeholders. Moreover, the Declaration did not deal with a number of issues of key concern to programme country Governments (including conditionality), as well as issues emphasized by other stakeholders, including parliamentarians and civil society (for example accountability and transparency). Primarily occupied with monitoring aid delivery, the Paris process has not demonstrated genuine ability to change donor behaviour or to link the aid effectiveness agenda with sustainable development results;

(e) The capacities of programme countries to coordinate and manage aid are growing, with improvements in public financial management, procurement and recording, but major gaps remain in terms of analytical, policy, strategic and evaluation capacities, which receive the least support. Most capacity-building has focused on core ministries, with limited attention to the needs of parliaments, auditors and civil society;

(f) The mainstreaming of the internationally agreed development goals into national poverty reduction strategies and aid policies of donors is selective. These policy instruments also prioritize a selective Millennium Development Goal agenda of economic growth for reducing income poverty, social investment and good governance, including the rule of law, while many give little consideration to the broader agenda of equity, pro-poor growth, employment, hunger and democratic governance;

(g) South-South and triangular cooperation is a growing dimension of international development cooperation, playing a complementary role to traditional bilateral and multilateral aid. Almost all South-South development cooperation is in the form of project finance and technical assistance with little or no conditionalities attached. Around two-thirds of South-South development cooperation is provided as loans on concessional terms in line with programme country policies and therefore carrying less risk of making debt unsustainable.

The present report also makes a number of action-oriented recommendations on the above topics, including the possible future role of the Development Cooperation Forum.

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I. Introduction

1. At the 2005 World Summit world leaders recognized the need for a more effective Economic and Social Council as a principal body for coordination, policy review, policy dialogue and recommendations on issues of economic and social development. To that end, the Summit decided that the Council should convene a biennial high-level Development Cooperation Forum to review trends and progress in international development cooperation, including strategies, policies and financing, promote greater coherence in the development activities of different development partners and strengthen the link between the normative and operational work of the United Nations.

2. As part of strengthening the Council, the Development Cooperation Forum has been mandated to identify gaps and obstacles in international development cooperation with a view to making recommendations on practical measures and policy options to enhance its coherence and effectiveness. The Forum is also expected to serve as a platform for sharing experiences and lessons learned.

3. The present report is divided into three parts:

(a) Section II, which briefly summarizes progress in the implementation of the global partnership for development with focus on private flows, debt relief, trade and systemic issues;[1]

(b) Section III, which reviews specific trends and progress in international development cooperation, with particular focus on six issues identified by stakeholders in the preparatory events as of high importance for enhanced coherence and effectiveness of international development cooperation:[2]

(i) The delivery of aid commitments;

(ii) The practices and implications of allocating aid for the achievement of the global development agenda;

(iii) How the present framework for aid effectiveness could be further improved;

(iv) The progress in strengthening country capacities for aid coordination and management;

(v) The extent to which the internationally agreed development goals, including the Millennium Development Goals, are being mainstreamed into poverty reduction strategies and aid policies;

(vi) The role of South-South and triangular cooperation in international development cooperation;

(c) Section IV, which offers policy recommendations for consideration by Member States on how to enhance the coherence and effectiveness of international development cooperation.

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[1] Section II should be read in conjunction with recent reports and summaries in preparation for the Follow-up International Conference on Financing for Development in Doha, including A/62/217. Relevant reports and summaries can be accessed at www.un.org/esa/ffd.

[2] Background studies are available at www.un.org/ecosoc/newfunct/2008dcf.shtml.

4. The Development Cooperation Forum is poised to become a key mechanism for inclusive global dialogue and policy review on development cooperation issues. As a first step, the discussions at the 2008 Forum are intended to inform the Follow-up International Conference on Financing for Development, which will be held in Doha from 29 November to 2 December 2008, and the Accra High-level Forum on Aid Effectiveness, to be held from 2 to 4 September 2008. This is reflected in the focus of the present report.

5. The design of each Development Cooperation Forum will provide the flexibility to address issues high on the international development agenda, taking into account activities and events of related processes, with the aim of providing a longer-term perspective which could become the defining characteristic of the Forum.

II. Global partnership for development: mixed progress

6. The unprecedented growth of the world economy in the past five years has strongly benefited developing countries, which now account for a third of world merchandise trade and inward foreign direct investment (FDI). Developing countries also contributed more than 40 per cent of world economic growth in 2007. However, improved aggregate economic performance does not necessarily translate into poverty reduction and, as a result, the poorest countries are not enjoying a commensurate improvement in their standard of living.

Without coherent policies across the board, development cooperation will have limited impact.

7. Despite progress in some areas of the global partnership for development, agreements on trade and investment and the participation of developing countries in international economic decision-making are not living up to commitments and expectations. This should be cause for concern since without comprehensive and coherent policies on the core areas of the Monterrey Consensus, development cooperation will have, if any, a very limited impact.

Private flows increasing but trade outlook remains bleak

8. Progress on private flows is largely associated with the sizeable increase in the scale of such flows to developing countries since 2002, with net flows almost reaching a record of $1 trillion in 2007. Middle-income countries accounted for the vast majority of the $456 billion in FDI flows to developing countries, with five countries accounting for 46 per cent of such investment.

Private flows are growing, yet with little focus on the anti-poverty aspect of investment.

9. FDI remains concentrated in the primary commodity sector, in particular oil. The surge in investment in extractive industries has been especially strong in Africa. In Asia, foreign investors have been attracted to manufacturing exports, and in Latin America FDI has spanned only a few sectors, mainly in response to privatization. While some of these flows have stimulated exports, the multiplier effects on employment have been weak. Similarly, the increase in investment flows to

developing countries has been matched by high volatility, although there has been little focus on the pro-poor aspect of investment.

10. Remittances to developing countries, which, in addition to consumption, contribute to savings, credit mobilization and other forms of investment, have grown sharply (to $240 billion in 2007).

11. In terms of international trade, in recent years a limited number of developing countries have played an increasingly significant role. Developing countries accounted for a record 34 per cent of world merchandise trade in 2007, with least developed countries accounting for 0.9 per cent, owing primarily to higher commodity prices. South-South trade is currently growing faster than global trade, although two-thirds of this trade is concentrated in Asia. Trade is also increasingly concentrated among partners in proliferating regional trade agreements (currently 45 per cent).

Benefits of international trade remain unevenly distributed.

12. Progress with regard to broadening the benefits of international trade remains slow and uneven. The bleak outlook for the Doha Round of trade negotiations is of particular concern, with growing sentiment that the needs and interests of developing countries are not being taken fully into account. Despite agreement, in principle, on duty and quota-free access to developed markets for least developed countries, export and production subsidies and dumping continue to cause global trade distortions. Tariffs paid by developing countries to other developing countries also continue to impede trade flows.

13. As demonstrated by the problems currently being caused by increasing oil and food prices, there has been little progress in protecting developing countries from commodity instability and external economic shocks. The effectiveness of current compensatory facilities is limited, in part due to conditions that deter countries from responding to shocks and to choose, instead, to opt for tightening their fiscal and monetary policies.

Some advances in debt relief

14. Advances in debt relief have come primarily from the Heavily Indebted Poor Countries Debt Initiative and the Multilateral Debt Relief Initiative, which are expected to reduce the debt stock of 31 countries by more than 90 per cent, or $100 billion. With debt servicing for such beneficiaries reduced, on average, by 2 per cent of gross domestic product (GDP), poverty-reducing expenditures increased from under 7 per cent to more than 9 per cent between 2000 and 2006. Many beneficiaries of the debt initiatives are still perceived, however, as being at high risk of incurring renewed unsustainable debt.

Increases in aid due to large scale debt relief.

15. Most debt relief has not been additional to targeted aid increases, with a portion of it representing transfers among creditor agencies to wipe out unpaid debts. In fact, debt relief as a share of donor aid peaked at 23 per cent in 2005, falling to 8 per cent in 2007. More relief may be needed for a wider range of

developing countries with external debt problems, taking into consideration growth requirements and the policy space required to overcome debt distress.

16. A significant number of middle-income countries, with predominantly private debt, are heavily indebted and likely to face debt distress in a world economy with a less favourable outlook. The present private debt restructuring approaches focus on intermediate targets, however, and do not necessarily provide these countries with a "clean slate" after a default.[3]

Progress at the country level not reflected at the global level

17. At the country level, indicators of sound policies, good governance, ease of doing business and the rule of law have been positive in developing countries in recent years. Similarly, macroeconomic and fiscal management, legal and regulatory frameworks and national development strategies have also improved.

Modest advances have been made in strengthening the voice and participation of developing countries.

18. At the same time there has been very limited progress on systemic issues, especially strengthening the voice and participation of developing countries in international financial decision-making and norm-setting. There has been recurring reform of the governance structure of the International Monetary Fund (IMF) and the World Bank has launched its own reform process, coupled with some enhancement of efforts to reinforce the capacity of developing countries to negotiate decisions within international organizations.

19. However, while the need for reform is acknowledged by all stakeholders, these modest changes do not reflect the current level of participation by developing countries in the global economy in a simple and transparent manner. In particular, developing countries continue to have very little voice in the formulation of global financial regulations, which therefore remain less adapted to their needs and capacities, let alone their development aspirations.

Global challenges ahead

Emerging global issues may undermine progress on the global development partnership.

20. As global economic uncertainties deepen, due to instability in the financial sectors in a number of advanced economies, there is growing concern that a global downturn might lead to protectionism, adversely affecting exports and investment flows to and from developing countries. Rising food and energy prices are also taking a toll on consumers around the world, especially in poor countries that are dependent on food and energy. Moreover, climate change has emerged as a new risk factor, with developing countries requiring better technology and large increases in financing to respond effectively to this global challenge. In sum, progress on the global development partnership is by no means strong enough to ensure that development cooperation will produce rapid advances towards the internationally agreed development goals.

[3] See A/62/217.

III. Recent trends in international development cooperation

A. Aid quantity: more hands not delivering enough

Aid short of commitments

21. At the end of 2007, official development assistance (ODA) stood at $103.7 billion, a 15 per cent increase in real terms since 2004. However, since 2005, ODA has fallen by almost 13 per cent in real terms and the ODA/gross national income (GNI) ratio from 0.33 per cent to 0.28 per cent. The decline in 2006 and 2007 comes on the back of one-off debt relief to Iraq and Nigeria in 2005.

Aid peaked in 2005, with a declining trend in recent years.

22. Against the actual trends, the pledges made in 2005 by donors offer less cause for optimism than they did when ODA, based on commitments, was first projected to increase from $80 billion in 2004 to $130 billion by 2010. In this context, the European Union has also set a collective ODA target of 0.56 per cent of GNI by 2010 and 0.7 per cent by 2015 for the 15 countries that joined before 2004, with a target of 0.33 per cent by 2015 for its 12 other members. Many European countries have also established more ambitious individual targets.[4]

23. Temporary peaks in debt relief do not reflect real transfers of programmable aid to developing countries. Taking this into account, the Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee calculates that ODA (excluding debt relief) has increased at less than half the rate needed to reach $130 billion by 2010, and that most donors are not on track and will need to make unprecedented efforts to scale up if they are to meet their stated commitments.

24. Equally important, donors are not planning ahead to meet aid targets. According to a recent survey by the Development Assistance Committee, member countries are currently planning increases that will leave them $38 billion short of the 2010 target. Similarly, only nine members of the European Union have met the European Council goal of introducing targets for annual increases leading to 2010, although five member countries are moving towards that goal.

Diversification and fragmentation increasing

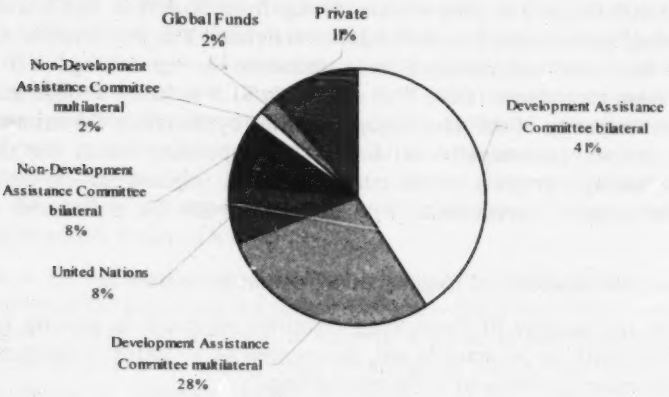
Rapid growth in sources of funding for development, in particular for South-South cooperation and private philanthropy.

25. Recent years have seen a rapid growth in sources of funding for development cooperation from outside the regular Development Assistance Committee channels, notably South-South cooperation and private philanthropy for development, which have grown, respectively, to $12.6 billion (9 per cent of total development

[4] A number of countries have committed themselves to stay above 0.7 per cent ODA/GNI, including: Denmark (0.8); Luxembourg (1.0); the Netherlands (0.8); Norway (1.0); and Sweden (1.0). Several other countries have committed themselves to achieving 0.7 per cent ODA/GNI at an earlier date, including: Belgium (2010); France (2012); Ireland (2012); Spain (2012); and the United Kingdom of Great Britain and Northern Ireland (2013).

cooperation flows) and $14.8 billion (11 per cent) in 2006.[5] Global and vertical multilateral funds (largely funded by Development Assistance Committee donors) account for around 2 per cent of these flows. Nevertheless, Development Assistance Committee donors and international organizations continue to account for around three quarters of global flows (see figure 1).

Figure 1
Sources of development cooperation: 2006



26. In terms of channels, development cooperation is becoming slightly less multilateral in character. Multilateral aid continues to represent around 40 per cent of global flows (and 50 per cent of flows from Development Assistance Committee donors), but around 50 per cent of this funding (including for the United Nations) is earmarked for specific initiatives, sectors or themes. While it is unclear whether earmarking actually enhances development effectiveness, it has been shown to lead to distortions in the management and coordination of multilateral aid.[6] There has also been some movement of funding channelled via global funds and civil society organizations, rather than multilaterals, but once again with little known of the effects on overall aid effectiveness.

Development cooperation is becoming less multilateral.

27. Recent developments include an acceleration of the proliferation of donor agencies, which are currently estimated at more than 1,000, including 56 bilateral and 230 multilateral agencies. The Governments of more than 30 developing countries now have to deal with more than 40 agencies. Proliferation has some important advantages, including a wider choice of funding sources for programme

[5] For further information please refer to the background study on "Recent trends and progress in South-South and triangular development cooperation" (see www.un.org/ecosoc/newfunct/2008dcfbckgrd.shtml).

[6] See A/62/73-E/2007/52 and A/62/253.

countries, which can enhance stability and predictability of flows by diversifying risk, especially for countries with relatively few sources. It also provides more diverse perspectives on development issues (from national and sectoral development strategies to technology and expertise transfer) and increased funding for underfunded sectors such as infrastructure and production.

Proliferation of donor agencies is accelerating.

28. Proliferation has many more potential disadvantages, however, including conflicts over development priorities and conditionalities, increased earmarking by global funds and a dramatic increase in transaction costs. As of 2005, there were more than 65,000 donor activities worldwide, up from 20,000 in 1997, with some countries having hosted more than 1,000 donor activities. The proliferation of actors in this field has been accompanied by a reduction in the average size of the contribution from each donor (from $2.5 million to $1.5 million). Proliferation also undermines the capacity of the developing countries by diverting Government staff to work as project counterparts or donor staff, spending funds on technical assistance to manage projects or on parallel project implementation units, thus increasing the costs of coordination with donors at both the global and country levels.

29. To offset proliferation and fragmentation, donors have tried to:

(a) Cut the number of developing countries regarded as priority partners. When combined with an increase in aid, this is leading to further concentration of aid in some countries, referred to as "donor darlings";

(b) Reduce the number of donors involved in a country or particular sectors via a division of labour exercise. While it may reduce fragmentation, such exercises have often been driven by donors rather than led by programme country analysis and policy.

B. Allocating aid to maximize progress towards achievement of the internationally agreed development goals

30. A key problem in international development cooperation is that the allocation of aid is not sufficiently conducive to maximize progress towards achievement of the internationally agreed development goals. This applies to allocation among developing country groups, regions, individual countries and regions within countries, as well as allocation among sectors and types of aid.

Aid allocations are not maximizing progress towards achievement of the development goals.

31. Among developing country groups, aid to the poorest countries is rising more rapidly than overall aid. In the last decade there has been a major rise in the proportion of total aid going to least developed countries (to 34 per cent) and low-income countries (to 63 per cent). Nine members of the European Union already allocate ODA in the range of 0.15-0.2 per cent of that GNI to least developed countries and another six plan to do so by 2010. Nevertheless, ODA to least

developed countries is still only 0.09 per cent of the GNI of the member States of the Development Assistance Committee.

32. Aid to Africa has fallen significantly short of the 2005 pledge of the international community to double annual aid to Africa by 2010 from $25 billion to $50 billion per year. However, excluding debt relief, aid to Africa has risen by only 10 per cent in real terms since the pledges were made. Though some Development Assistance Committee donors have made concrete plans for reallocating aid to Africa, many others will fall far short of their targets.

1. Allocation models

33. Over the last decade there has been a reduction of the "small country bias" (countries with smaller populations receiving more aid per capita). However, large amounts of aid continue to go to countries with relatively small numbers of poor citizens, which reduces the impact of such aid on the attainment of the internationally agreed development goals. Equally important, aid allocations are not correlated with measures of multidimensional poverty or needs, which go beyond per capita income, nor do they take into account "poverty-efficiency", which combines the scale of poverty in a country and the amount of poverty reduction that can be achieved per dollar of aid.

34. This is partly because most donors have yet to establish an objective and transparent basis for allocating aid across countries. Since the 1990s, several donors have adopted models that are used, to varying degrees, to determine the allocation of aid across countries or to pre-select countries to which they will provide aid. Some are based on donor-conducted assessments of the quality of policies and institutions of programme countries, which undermines the principle of national ownership due to lack of government and civil society involvement. Other donors take country needs, outcomes and results or the amount of aid a country is receiving from other donors into account to a greater degree in an attempt to balance out distortions in international aid allocation. Nonetheless, aid continues in large part to be allocated based on political, strategic and economic interests.

Aid is not allocated according to objective and transparent criteria.

35. As a result of performance-based models, the multilateral development banks have made a dramatic shift in allocation towards countries with what is regarded subjectively as "best performance" in terms of governance and policies, rather than to countries achieving more objectively measurable development results. Performance-based allocation is also increasingly influencing the selection of priority programme countries by some bilateral donors.

Aid increasing allocated to "best performers" in governance and policies.

36. Notwithstanding the importance of the quality of policies and institutions, the relationship between indicators of performance and development results is tenuous, especially if the impact of exogenous shocks on results is taken into account. Aid allocation would ideally combine maximizing progress in achieving the internationally agreed development goals with the principles of effectiveness and equity in a transparent framework, which would take into account the structural

vulnerability of countries to external shocks, particularly since aid can play a strong role in preventing such shocks and dampening their impact.

37. In this context, the bilateral allocation of funds by Development Assistance Committee donors to multilateral organizations becomes more difficult. While providing more aid via multilateral agencies can overcome strategic or economic allocation distortions by allocating more funds to low-income countries, several multilateral agencies are already emphasizing policies and institutions rather than needs or outcomes.

2. Unpacking broader trends

38. Disguised by overall trends is the fact that a considerable number of countries receive far more aid than would be expected on the basis of need or performance ("donor darlings"), as well as an almost equal number receiving much less than expected ("donor orphans"). In 2006, 15 programme countries received 60 per cent of bilateral aid. On the other hand, non-post-conflict countries, which are nevertheless facing severe internal pressures receive, on average, less than one third of other countries' per capita aid levels. This largely reflects the lack of an international system for assessing whether allocation is responding to need or results and for balancing allocation in order to ensure that countries are evenly assisted so that the international community maximizes results from aid.

Aid does not necessarily go to the poorest regions or the poorest groups within countries.

39. Within countries, many programme countries have indicated that donors tend to concentrate on regions or groups that are either closest to the capital or to decent infrastructure, are perceived as being the poorest or those with which individual donors have long-standing ties. Donors indicate that some national development strategies focus on regions or groups that support the Government rather than those with the most acute needs. As a result, within countries, aid does not necessarily go where it will make the most difference to the achievement of the internationally agreed development goals.

3. Sectoral distribution

Aid increasing to social sectors and governance, while economic infrastructure and production languish.

40. In the past 25 years, across sectors (see figures 2 and 3), there has been a dramatic increase in allocation to the social sector, including health, education and other services (up from 10-15 per cent to 30 per cent). Aid to governance has also risen from virtually zero to 10 per cent. This has been mirrored by decreasing allocation to economic infrastructure (down from 25 to 30 per cent to less than 15 per cent) and production (from 27 per cent to only 7 per cent, with a particularly sharp fall in the allocation to agriculture from 19 per cent to 4 per cent).

Figure 2
Sectoral distribution (social and related): 1980-2006
(Percentage of ODA)

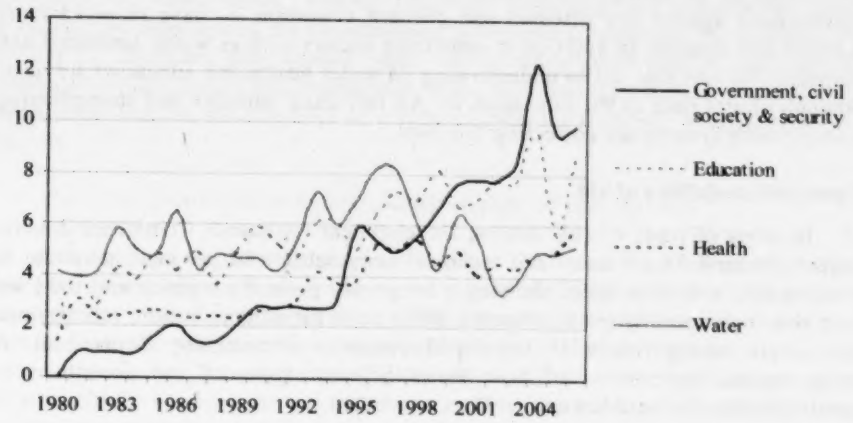
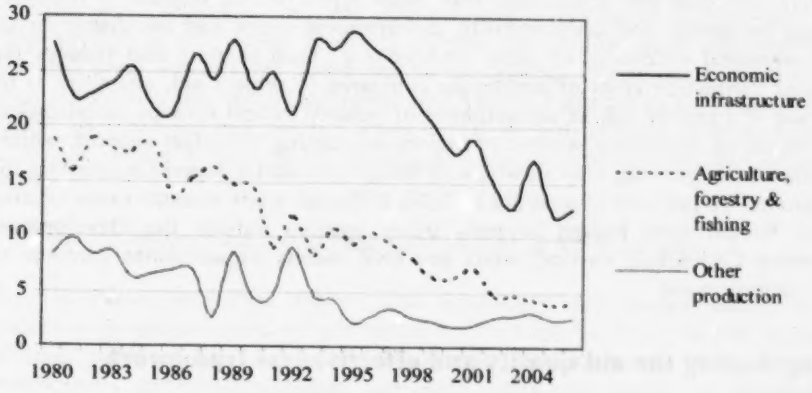


Figure 3
Sectoral distribution (economic and production): 1980-2006
(Percentage of ODA)



41. These trends have caused concern, which has recently been reinforced by analysis showing, overwhelmingly, that investment in infrastructure (transport, energy, water and information and communications technology), agricultural technology and microcredit will be crucial to attaining the income poverty and hunger components of Millennium Development Goal 1. As a result, there is growing evidence that some donors are scaling up support for infrastructure, trade and production. The recent global food crisis could conceivably have the same impact on reviving aid to agriculture.

"Quick win" interventions in social sectors have predominated.

42. Even within the social sectors, key Millennium Development Goal targets that are perceived as being more easily attainable — for example "quick win" interventions against key diseases and primary education — have received more attention and funding. In addition to penalizing sectors such as water, sanitation and nutrition, this has also led to underfunding of wider health and education services, although efforts such as the Education for All fast-track initiative and strengthening overall health systems are correcting this bias.

4. Types and modalities of aid

43. In terms of types of aid,[7] among Development Assistance Committee donors, projects (around 34 per cent) and technical cooperation (20 per cent) continue to predominate, with debt relief showing a temporary peak. Emergency and food aid have also risen recently (to 9 per cent), while costs for administration, scholarships and people taking refuge in developed countries account for 8 per cent. A comprehensive assessment of how these different types of aid contribute to sustainable development has not yet been conducted.

Budget support is more effective, efficient and sustainable ... yet it is growing only slowly.

44. However, general and sector budget support has been found to be more effective, efficient and sustainable than other types of aid, because it increases national ownership and accountability, disbursement speed and the distributional and operational efficiency of public expenditure. Such support also reduces the marginal transaction costs of scaling up compared to project aid, and there is no evidence of a greater risk of corruption or of reduced budget revenue mobilization. As a result, an increasing number of donors are turning to budget support, which, nevertheless, is growing only slowly, with budget and sector support accounting for only around 10 per cent of total aid in 2006. Although a few countries now receive almost 50 per cent budget support, many sources outside the Development Assistance Committee, vertical funds and civil society organizations continue to focus on project aid.

C. Strengthening the aid quality and effectiveness framework

45. Considering that the quality and effectiveness of aid is a critical factor in achieving sustainable development results, it is surprising that a concerted agenda to improve aid effectiveness was not established before the 2002 International Conference on Financing for Development held in Monterrey, Mexico. Since then, the aid effectiveness agenda has been deepened through the promulgation of key principles (in Rome in 2003) and monitorable indicators (in Paris in 2005).

[7] Precise numbers for breakdowns of types of aid remain hard to identify, because much technical assistance is included in programmes or projects, and sector budget support is not identified separately in published statistics.

1. Paris Declaration on Aid Effectiveness: a step change without full participation

46. The Paris Declaration on Aid Effectiveness marked a step change in articulating benchmarks for progress, yet the negotiation process did not engage the full range of stakeholders. Among countries providing aid, discussions were dominated by members of the Development Assistance Committee. Participation by developing countries was limited, with civil society organizations and private foundations contributing only marginally. While this facilitated agreement, it left the Declaration without the approval of a conventional international multi-stakeholder process.

Paris Declaration negotiations did not engage all stakeholders.

47. The process of monitoring progress since 2005 has focused attention and dialogue on aid effectiveness at the country-level. In addition, it has initiated the development of action plans by most OECD donors and multilateral agencies, as well as by developing countries for overall groups of donors. However, it has not helped developing countries to hold individual donors significantly more accountable for reaching the targets set out in the Declaration, or to lead the process by designing their own policies on development cooperation. According to a 2006 survey, the Paris mechanisms are not yet adequate for monitoring the aid commitments of donors at the global level.

48. Similarly, the aid effectiveness agenda is not yet demonstrating its ability to change donor behaviour. Assessments of progress in implementing these commitments conducted by the Development Assistance Committee and independently by programme countries indicate that donors are a long way from achieving them, notably the commitments on capacity development, programme-based approaches and mutual accountability. The poor quality of aid is particularly evident in countries that receive lower levels of aid, thereby exacerbating the distortions of aid allocation by making aid not only insufficient but also less effective.

The aid effectiveness agenda has yet to change donor behaviour.

49. The Paris Declaration did not deal adequately with several issues of key concern to developing country governments (for example, tying of aid, capacity-building, predictability, flexibility to combat shocks, policy and procedural conditionality and concessionality) and other issues championed by stakeholders such as parliamentarians and civil society organizations (including, accountability, transparency and cross-cutting themes such as gender, human rights and the environment).

2. Types of aid and capacity-building

50. Tying of aid to purchases of goods and services in donor countries is estimated to increase costs by between 25 to 60 per cent, reducing the value-for-money from aid. In 2001, Development Assistance Committee donors agreed to untie aid to least developed countries (except for food aid and technical assistance). Many donors have gone further, increasing untied aid to 53 per cent in 2006, up from 43 per cent in 2002. However, the tied status of 20 per cent of Development Assistance Committee aid is not reported to the Development Assistance Committee. Food aid,

technical assistance and aid to non-least developed countries remains tied, and a large share of untied aid is spent in the contributing country.

The tying of large portions of aid is unreported.

51. The proportion of ODA used to purchase goods and services from programme countries remains low, undermining the "first round effects" of aid spending on promotion of private sector growth in developing countries. Although some multilateral and bilateral donors give preference to local suppliers, the procurement methods of a number of donors contain distortions that favour offshore suppliers, and local and regional enterprises often lack capacity to win aid-funded contracts.

52. Progress in building capacity by transforming technical assistance has been wanting. The Paris indicators do not track the impact of technical assistance on developing national capacity and programme countries indicate that only around one quarter of such assistance builds capacity. Reports have highlighted the need for tighter monitoring of capacity-building results, programme country leadership in design and management and local or regional procurement of expertise.

3. Ensuring predictability while maintaining flexibility

53. Predictable aid enables developing countries to plan long-term development strategies, medium-term expenditure frameworks and annual budgets. This applies both to project aid, where delays can have negative effects on the real economy (such as power shortages), and programme aid, where delays in cash budget support or in commodities such as food or essential drugs can severely disrupt budget and programme planning.

Predictability has improved in some programme countries.

54. Overall, aid is generally much more volatile than budget revenue and only 60 to 65 per cent of aid flows are disbursed by donors in the fiscal year for which they are scheduled. Around 40 per cent of aid is programmed on a multiyear basis, and less than half has specific disbursement schedules included in agreements. Predictability has improved in some programme countries, however, due to budget support performance assessment frameworks containing "guaranteed tranches" and increased multiyear programming by a few donors to match costed medium-term expenditure frameworks or sectoral plans by programme countries.

Flexibility is essential in countering exogenous shocks.

55. It is important, however, that predictability is balanced with flexibility. For programme and donor countries alike, Governments may change or be renewed, with new priorities and mandates requiring different types of aid or different sectoral emphasis. Flexibility is also essential in countering exogenous shocks, whether macroeconomic (such as import price rises or export price falls) or natural disaster-related. This is one of the poorest-performing aspects of aid, with flexibility of only around 15 per cent in either respect.

4. Policy and procedural conditionality

56. A key cause of unpredictability is policy conditionality. Many Development Assistance Committee donors and multilateral organizations have traditionally functioned on the basis of negotiating conditionalities for disbursing aid, although research reveals that, in the vast majority of cases, policy-based conditionality is ineffective, intrusive and unduly restrictive of policy space. In addition, conditions are often unnecessarily numerous and detailed, adding to transaction costs, leading to aid being delivered pro-cyclically. Thus, when a country's policies go off-track, reducing growth or budget revenue, aid flows also fall, accelerating the accumulation of domestic debt or arrears or cuts in investment spending.

Policy conditionality is a key cause of unpredictability.

57. Since the mid-1990s, attempts by donor agencies to streamline conditions have had only limited results, because incentives within agencies continue to encourage this practice. These efforts have been offset, to some degree, by the proliferation of conditions associated with governance indicators. The harmonization of policy conditions via multi-donor budget support and sectoral policy matrices has also often initially led to "highest common multiples" of conditionality, with each donor adding ideas to the list. Over time, some programme countries have managed to increase budget support predictability by introducing a higher degree of transparency, as well as flexibility in interpreting compliance, which limits the immediate triggering of disbursement suspension.

Conditions associated with governance indicators have proliferated.

58. Procedural conditionality also poses significant obstacles to prompt disbursement, especially of project aid. Financial, institutional and analytical preconditions can delay the start of aid disbursements by up to a year. Disbursement procedures can add nine months, financial management and procurement procedures another year, and substantive reports and reviews may also take a year. Cumbersome programme country procedures have the same effects, delaying compliance with donor conditions or project execution if aid is disbursed following country procedures.

59. Overall, disbursement delays undermine the execution of key projects, waste resources which could be dedicated to programme/project objectives and lead to a false perception that programme countries are experiencing problems in absorbing aid. The Paris Declaration focuses on only a few of these issues[8] and ignores other key delaying factors such as counterpart funds, personnel employment, compiling reimbursement documents, customs clearance, complex procurement procedures, pre-shipment inspection and failure to decentralize the execution of procedures.

5. Additional funding on uniformly concessional terms

60. Another key issue is concessionality of funding. ODA is generally provided as grants (89 per cent in 2005-2006), and while many debt crises have been triggered by non-ODA lending, developing countries still need to borrow to finance their development. International discussions have focused on ensuring prudence in both

[8] Such as parallel implementation units.

how developing countries access loans and how lenders provide them, especially in the case of countries that have recently received debt relief or whose debt may again become unsustainable. As a result, international financial institutions have become more cautious about lending non-concessionally to programme countries, the multilateral development banks have introduced cuts in new concessional funds for countries that borrow irresponsibly and OECD has promulgated guidance to discourage any unduly aggressive provision of export credits.

61. However, the crucial factor determining whether programme countries can finance their development programmes while keeping debt sustainable will be the availability of adequate highly concessional ODA grants and loans, which can prevent more expensive external or domestic debt. This is especially true for low-income or vulnerable countries whose foreign exchange earnings or budget revenues are modest and volatile. Owing to the current absence of sufficient concessional funding for development programmes from the Development Assistance Committee, developing countries are increasingly resorting to loans from other sources.

There is no current agreement on what constitutes concessional lending.

62. Given the importance of this issue, it is surprising that there is no current agreement on what constitutes concessional lending (that is, ODA), with the Development Assistance Committee and the IMF using entirely different standards.[9] With non-concessional market borrowing meeting the Development Assistance Committee standard at current interest rates in most convertible currencies, the standard no longer provides an adequate guarantee of concessionality.

6. Transparent pursuit of results across multiple sectors

63. As regards transparency, citizens and parliaments of programme countries are increasingly demanding solid information about development cooperation at the national level, which constitutes a critical prerequisite for improving national accountability and promoting democratic ownership. Yet there are wide variations in the amount of information that is made publicly available about projected aid commitments and disbursements, policy and procedural conditions linked to aid, as well as key documents on aid policies and negotiations. In this regard, mutual accountability mechanisms in programme countries vary dramatically in the degree to which they include parliaments and civil society in such discussions.

Cross-cutting development issues are not sufficiently reflected in the current aid effectiveness framework.

64. In addition, there is a concern that the current aid effectiveness framework is not sufficiently responsive to development issues that cut across multiple sectors, notably human rights, gender and the environment. The Paris Declaration calls for harmonized environmental assessments and for harmonization efforts on other cross-cutting issues. While some stakeholders argue that this falls short of a strong statement of resolve and that increasing budget support may marginalize these

[9] The Development Assistance Committee uses a 25 per cent grant element calculated with a 10 per cent discount rate. IMF employs a 35 per cent grant element calculated using the much lower cost of capital in the currency of the loan.

issues and vulnerable groups, others suggest that development strategies resulting in strong monitorable commitments on these issues are the best way to proceed.

65. Finally, it is not clear that the Paris agenda will successfully go beyond procedural changes, which are the focus of most of its indicators, in order to ensure that development cooperation achieves sustainable development results. Already, the present report has highlighted that the degree to which programme and donor countries are not mainstreaming the global development goals as results or allocating aid to maximize their achievement and that some donors insist, via conditionality, on their own priority results. Addressing these issues will be crucial if the aid effectiveness agenda is to receive support at the political level and from civil society in the North and South.

Only by focusing on sustainable development results will the aid effectiveness agenda receive broader support.

D. Building capacity for aid coordination and management

66. The aid coordination and management capacities of programme countries have improved some in recent years, but most still face major gaps. A detailed assessment of the aid management cycle, including strategy and coordination functions, indicates that capacity levels in low-income countries are closely linked to recent capacity-building and development efforts by the international community.[10]

1. Analytical, policy and strategy capacities

67. Analytical, policy and strategy capacities have been least supported. Only around 12 developing countries have a clear aid management policy, and even those countries have achieved surprisingly little change in donor behaviour. This is partly because their policies are mostly limited to criteria of the Paris Declaration, rather than targeted at general barriers to effectiveness such as conditionality, unpredictability and inflexibility. The policies also do not include annual targets for individual donors and are not systematically followed up through monitoring or by negotiating changes in donor behaviour.

Aid management policies have little impact on donor behaviour.

68. Only three countries have designed aid strategies to implement their policy by negotiating with individual donors. These strategies include analysis of how to diversify or rationalize donor interventions and forecast the impact of greater aid effectiveness resulting from the strategies on reducing long-term aid dependence and increasing development results.

69. A key reason for country inability to design policies and strategies is limited capacity for aid analysis. Analysis of macroeconomic absorption and impact remains dominated by IMF. Virtually no country conducts a regular analysis of the micro-absorption aid cycle and disbursement blockages. Around 30 countries now conduct regular analysis of the degree of donor alignment with national policies and

[10] The assessment is based on the Heavily Indebted Poor Countries Debt Initiative capacity-building programme, which involves 36 low-income countries.

procedures, but the ability to plan aid scenarios through long-term forecasts and simulations of the impact of differing degrees of effectiveness is limited.

70. The capacity to evaluate results remains limited in many countries, in particular outside finance and planning ministries, since most evaluation processes use multiple donor frameworks rather than local programme country systems. Many countries are accelerating efforts to create national monitoring frameworks into which evaluations by donors can fit.

2. Coordination and operational capacities

71. Aid coordination used to be synonymous with donor-led coordination focused on harmonizing donor policies and procedures, discussing the policies or investment programmes of programme countries and providing financing pledges to support them. Coordination is now increasingly led by programme countries, focused on aligning donor policies and procedures with national priorities and providing resources to produce the results targeted in national development strategies.

Aid coordination is increasingly led by programme countries, yet negotiation capacities remain limited.

72. In this regard, the capacity to negotiate the alignment of development cooperation is underdeveloped. Countries currently lack the information and skills that would enable them to negotiate alignment for every programme and project based on knowledge of global best practices by donors.

73. Major efforts are being made to improve public financial management (including budgeting, accounting and auditing) and procurement, although these remain dominated by donor perceptions of best practice, with little cooperative diagnosis being carried out by programme countries and low involvement of civil society. Due to insufficient efforts to accelerate disbursements and to ensure that programme country and donor procedures facilitate matters in this regard, programme countries continue to suffer persistent large disbursement shortfalls. Efforts are also being made to enhance recording and monitoring systems.

3. Broadening capacity-building

74. Another vital issue is where capacity is being built. Almost all support has focused on ministries of finance, planning and development, with insufficient support to sector ministries, parliamentary committees, decentralized entities (e.g. states, municipalities), independent audit agencies and civil society organizations, which therefore tend to assess aid effectiveness and development strategies based largely on issues other than effectiveness or results.

Capacity-building tends to focus on the central government.

75. As part of improving aid quality, building the capacity of legislative and other oversight bodies is central to achieving results through passing laws regulating aid management functions; approving national aid policies; overseeing (together with audit offices) the quantity and quality of aid and its results; and transmitting to the executive the opinions of civil society groups and constituents on aid effectiveness and results. Similarly, civil society organizations play a key role in supporting the

beneficiaries of aid in assessing its effectiveness and results and assisting them in advocating improvements in national aid policies and effectiveness frameworks.

E. Mainstreaming global goals into development strategies and aid policies

76. The internationally agreed development goals,[11] including the Millennium Development Goals, have played an important role in mobilizing the commitment of the international community to address global development challenges. A key objective of the Development Cooperation Forum is to promote the attainment of the internationally agreed development goals through more coherent and focused development cooperation. An important indicator of this is how well these goals are mainstreamed into development strategies, aid policies and relevant performance review and evaluation mechanisms.

77. The preparatory process for the Development Cooperation Forum has shown that many of the Millennium Development Goals, and especially the wider internationally agreed development goals, are incidental and not central to poverty reduction strategies and aid policies. Some of the internationally agreed development goals are not even on the policy agenda, while rhetorical commitment to others is not being translated into action. This is largely because no quantitative targets have been set or they are considered additional to the Millennium Development Goals (around which most international attention has been focused).

Many development goals are incidental to strategies and policies.

78. The process also indicated that programme country strategies are often strongly influenced by the expectations of the main donors. Through sharing of such experiences the Development Cooperation Forum could help define policy autonomy for developing countries. Many developing countries have argued that discussions in a multilateral framework would enable a more realistic assessment of the real issues rather than more asymmetric relations in the donor-recipient discussions at the national level.

1. Local strategies and the global development agenda

79. Twenty-two "second generation" poverty reduction strategy papers focus almost entirely on the Millennium Development Goals rather than the broader internationally agreed development goals, while the "first generation" papers focused even more narrowly, largely on health and education. Among the Millennium Development Goals, basic education, health, water and sanitation, as well as reducing income poverty and improving governance, are the top priorities, with costed action plans.

Poverty reduction strategy papers fail to focus on the broader development goals ...

80. Other goals receive much less attention. Environmental sustainability, employment, gender equality and women's empowerment and broader governance

[11] See E/2005/56.

(democracy and popular participation) commitments are frequently mentioned in poverty reduction strategy papers, but are rarely costed; goals relating to hunger and social inclusion/integration are often not mentioned and virtually never costed; and goals relating to human rights (including violence against women and decent work), science and technology, sustainable energy, forest protection and biodiversity and international partnerships for the achievement of Millennium Development Goal 8 are barely mentioned.

81. Policies often only tackle a part of the problem and are therefore less likely to bring about achievement of the Millennium Development Goals. Most costed actions on income poverty relate to promoting economic growth, with relatively few strategies stressing pro-poor growth or support for vulnerable or marginalized groups, and only two second-generation poverty reduction strategy papers setting explicit objectives to reduce inequality. Most costed governance actions relate to public financial management and procurement, decentralization, rule of law (especially for private property) and anti-corruption programmes. Agricultural policies, which are of particular relevance in the current international debate about food prices, usually aim to enhance sectoral growth and exports without explicitly targeting food production or food security for the poor. Moreover, where employment strategies exist, they generally focus on increasing employment, ignoring explicit consideration of decent work and the labour market as the key means to ensure that growth promotes higher income for the poor.

2. Donor policies and the global development agenda

82. A review of the aid policies of 22 donors suggests that their policies almost always cite the Millennium Development Goals (rather than the internationally agreed development goals) as the basis for planning. Among these, the top priorities are education and health goals, especially child health. Reducing income poverty is also important for all donors as are, increasingly, gender equality, environmental protection, peace and security and governance. On the other hand, donors give much less priority to internationally agreed development goals on employment, hunger, social protection and integration and science and technology.

Donor policies also fail to focus on the internationally agreed development goals.

83. Furthermore, fundamental differences among donors about how some goals should be achieved remain. Some rely on the promotion of economic growth to reduce income poverty and others focus on whether such growth is pro-poor. In the area of gender equality, some limit themselves to education, while others focus more on maternal mortality, reproductive health and human rights. On the environment, some donors are mainly interested in forest conservation and biodiversity, while others stress climate change. On the subject of governance, Development Assistance Committee donors generally agree on the importance of public financial management and anti-corruption, although some stress private sector promotion and others the enhanced representation of the poor and civil society in relevant structures and processes. Some have a very strong focus on human rights and cultural diversity, while others largely ignore these issues.

Donors differ on how development goals should be achieved.

84. Poverty reduction strategy papers and aid policies are seldom situated in the international context. The strategy papers and national Millennium Development Goal reports rarely assess the impact of aid, debt relief, trade, investment, technology policies or other systemic economic governance issues on national development prospects. The majority of donors' aid policy statements do not link aid effectiveness to progress on the broader issues of trade, debt, investment and technology transfer, and virtually none explicitly sets bilateral goals for attaining Millennium Development Goal 8, or publishes a report on progress.[12] Nevertheless, there is growing recognition in the international community that policy coherence across sectors is critical if development cooperation is to support national development successfully.

3. Planning and performance assessment

85. Overall, almost all donors and programme countries use the Millennium Development Goals (and sometimes the internationally agreed development goals) as a normative framework to set broad objectives. The Millennium Development Goals are also used by many developing countries as a planning framework to guide resource allocation and programming priorities, while adapting them to national circumstances. Large amounts of aid are not, however, targeted to attain the Goals, and country-level flows are not growing as promised, partly due to unjustified doubts about the capacity of developing countries to absorb aid at the macroeconomic or microeconomic levels. As a result, developing countries often develop costed action plans only for high priority areas, which are the focus of donor funding, thereby reducing the scope of development plans and the size of budgets, thus undermining the achievement of the Goals. Furthermore, the use of the Goals as an evaluative framework is poor among both groups, leaving large amounts of aid not systematically evaluated on this basis of its impact on their achievement.

86. High-profile instruments used for performance assessment of developing countries focus primarily on the quality of processes, institutions and policies rather than the achievement of concrete outcomes such as the internationally agreed development goals. Most official assessments of first generation poverty reduction strategy papers rarely discussed whether the Millennium Development Goals, let alone the internationally agreed development goals, were included, costed and linked to medium-term expenditure frameworks or annual budgets or why the strategy papers failed to target the full attainment of the latter. Assessments of the second generation papers face similar issues, with the mainstreaming of global development goals still not a key criterion for evaluating the papers.

Performance assessments focus primarily on processes, institutions and policies.

87. In the context of the Paris Declaration, development strategies are assessed in terms of whether they are operational and are implemented in accordance with "managing for development results", which has an important impact on the degree

[12] Some of the Nordic Plus donors (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom) are exceptions.

to which Development Assistance Committee donors are required to align their cooperation with the strategies. The assessment contains references to most of the internationally agreed development goals as part of various sectoral strategies and overall goals, but the indicators analyse mostly the quality of the process through which strategies are developed, monitored and evaluated.

F. South-South and triangular development cooperation

88. South-South and triangular cooperation is of growing importance in international development cooperation. Analytical work conducted for the Development Cooperation Forum has focused on the scale, scope and quality of South-South and triangular development cooperation, especially the views of 32 programme countries on its contribution to development. This analysis, with support from Governments of the South, has contributed to more comprehensive and reliable information and data on South-South development cooperation.[13]

1. Scale and scope of South-South development cooperation

89. The findings of the survey suggest that South-South development cooperation accounted for roughly $12.6 billion in 2006. This form of cooperation has grown significantly in recent years due to rapid economic development in a number of developing countries, which has increased availability of funds and helped Governments to play a more active role in development cooperation. Of the total figure, around 20 per cent is provided through multilateral organizations.

South-South development cooperation accounted for roughly $12.6 billion in 2006 ...

90. In terms of its scope and quality, development support for South-South cooperation is currently playing a key role in the international aid architecture, exhibiting considerable strengths as well as some weaknesses. Such support, it should be noted, it is highly complementary to aid from Development Assistance Committee donors and multilateral institutions.

91. Most (around 90 per cent) of South-South development cooperation comes in the form of project finance and technical assistance, with only around 10 per cent in balance of payments or budget support. Some contributors are planning to move to more programme-based approaches in future.

... and it comes mostly in the form of project aid and technical assistance.

92. Many contributors to South-South cooperation have programmes that are co-financed by triangular cooperation, whereby Development Assistance Committee donors finance projects executed by institutions of the South. The focus of triangular development cooperation is primarily technical cooperation, because

[13] In order to distinguish it from other South-South flows, which are also growing rapidly, development cooperation discussed in the present report covers only flows which match the definition of ODA, used by the Organization for Economic Cooperation and Development Development Assistance Committee.

contributors are seen as having expertise relevant to meeting developing country needs. However, lack of information makes it difficult to quantify amounts or to conduct detailed analysis of the scope, quality or impact of triangular development cooperation.

93. Contributors to South-South development cooperation allocate most assistance to countries with which they have close political, trade and investment ties. This includes a strong concentration in nearby regions, reflecting cultural and language links, better understanding of needs, trade and investment opportunities and lower administrative costs. The concentration also allows Southern contributors to focus strongly on regional projects, which are a priority of many programme countries.

2. Salient features of South-South development cooperation

94. Around two thirds of Southern assistance is estimated to be provided as loans with approximately one third as grants. However, for most low-income countries, these loans carry little risk of making debt unsustainable, because they are concessional, in line with programme country policies.

Concessional lending for South-South development cooperation carries less risk of making debt unsustainable.

95. Programme countries see South-South cooperation as aligned with their priorities in a relatively balanced way, providing considerable funding for infrastructure (for example energy, telecommunications and roads) and productive sectors, as well as social sectors. Some contributors pass almost all aid through the budget of the programme country, while others channel virtually all aid extrabudgetarily.

96. Contributors to South-South cooperation are also seen as being responsive to changing priorities in programme countries and to natural disasters, even though they do not have formal contingency allowances or facilities specifically designed to combat exogenous shocks.

97. South-South development cooperation is seen as relatively predictable because around three quarters of it is disbursed within the scheduled financial year, a process which facilitates fiscal planning. Many projects are also executed more rapidly than non-South projects, accelerating their contribution to development, although some contributors have been less predictable than others and some projects have run into execution delays.

South-South development cooperation balances flexibility and predictability.

98. One reason for its predictability is that policy conditionalities are largely absent from South-South cooperation, making it more attractive to programme countries than aid which is tied to policy changes. A second reason for predictability is that it is relatively unencumbered by procedural and administrative delays. This is because most contributors to South-South cooperation activities use their own, relatively uncomplicated, financial management and procurement procedures and a few use national financial management procedures.

Policy conditionality is largely absent.

99. South-South development cooperation is mostly tied to procurement of the contributing country's goods and services, especially for technical cooperation and emergency aid, which does not necessarily mean it is high cost or poor standard, because goods from the South are often of good value and cost-effective. Some contributors, in particular Arab contributors, give preference to bidders from programme countries.

3. Coordination and interaction at the country level

100. South-South development cooperation is subject to relatively little evaluation beyond scrutiny of the timeliness and completion of projects. This reduces missions and studies, lowering the transaction costs of the Governments of programme countries, yet it also means that there will be a reduced longer-term perspective on the sustainability or wider development impact of the project. This cooperation is also subject to much less evaluation with respect to environmental and social impact, particularly in the case of infrastructure projects.

101. Most contributors to South-South development cooperation do not participate in formal harmonization initiatives with other donors, except through some regional and country-led forums. An interesting exception is the high degree of procedural harmonization among Arab contributors through the Arab Coordination Group, whose members usually co-finance projects.

102. Because of their rejection of policy conditionality, contributors to South-South cooperation have not been deeply involved in policy dialogue with programme country Governments at the national level, although they are participating more regularly in recipient country-led donor coordination meetings (consultative groups, round tables, etc.), especially on infrastructure issues.

Contributors to South-South cooperation are little involved in formal harmonization initiatives and policy dialogue at the national level.

103. While approximately two thirds of contributors to South-South cooperation have signed the Paris Declaration, they have not been at the forefront of international initiatives on strengthening aid effectiveness, and, in spite of OECD efforts at liaison, many remain wary of a forum dominated by donors, where the particular characteristics of South-South cooperation are not taken into account.

IV. Policy messages and recommendations

104. The following policy messages and recommendations to enhance the coherence and effectiveness of international development cooperation for the realization of the internationally agreed development goals, including the Millennium Development Goals are submitted to the Development Cooperation Forum for its consideration.

Policy coherence for enhanced impact of development cooperation

105. The impact of development cooperation would be greatly enhanced through mutually supportive policies on trade, debt, investment, technology, climate change,

food security and systemic issues. Towards that end, the international community needs:

(a) Progress on the Doha Development Round, broadened debt relief, measures to ensure that gains from trade and investment are pro-poor, accelerated technology transfer, mitigating and adapting to climate change, global policy on food security and deepened reforms in international organizations;

(b) Donors to produce annual reports on progress on Millennium Development Goal 8, outlining how national policies across different sectors contribute to coherent global development;

(c) Programme countries to include in national reports on the Millennium Development Goals analysis of how international policies are impacting development prospects.

Credible targets and actual disbursements for scaled up aid

106. If current trends continue, donors will fall considerably short of their aid commitments. For effective scaling up of aid, the international community needs:

(a) All developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of GNI as ODA to developing countries with 0.15 to 0.20 per cent to least developed countries;

(b) All development cooperation contributors to plan ahead by introducing targets for annual increases for a maximum number of years;

(c) Country-by-country analysis of past disbursement shortfalls in order to provide a better understanding of bottlenecks to the scaling up of aid and enhanced monitoring of barriers to effective disbursement, with the aim of planning commitments and disbursements more flexibly;

(d) Analysis of successful country experiences in scaling up aid with a view to facilitating replication.

A balanced approach to aid allocation

107. In order to maximize the contribution of development cooperation to the internationally agreed development goals by improving aid allocation, the international community needs:

(a) Donors to set concrete targets and plan forward for annual increases in aid, especially to the poorest countries;

(b) Donors to move towards a more balanced approach to aid allocation across programme countries, based on multidimensional poverty indicators, equitable distribution of development aid, structural vulnerability to exogenous shocks and progress towards the internationally agreed development goals, including transparent targets and public allocation models;

(c) Donors to assess the impact of aid allocation policies on reducing access of individual countries to high-quality aid before cutting back on priority partners, and to put programme countries in charge of leading donor "division of labour" exercises at the national level;

(d) Major increases in aid to support agriculture (especially food production and security), infrastructure and trade;

(e) Donors and programme countries to intensify collaboration to scale up programme aid and reduce the number of projects and the volume of technical assistance;

(f) A global aid effectiveness framework to set explicit targets for aid allocation based largely on need and progress towards the internationally agreed development goals.

Towards a strengthened framework for aid effectiveness

108. With the view of strengthening progress in improving aid quality and effectiveness in the period 2008-2010, the international community needs to:

(a) Strengthen the Paris Declaration targets for aid effectiveness by:

(i) Setting targets for untying aid, such as 100 per cent of aid to low-income countries, including food aid and technical assistance, and full reporting by Development Assistance Committee donors;

(ii) Supporting programme country evaluation and analysis mechanisms, ensuring that decentralized agencies, parliaments and civil society evaluate results, investing more in South-South exchanges on how to achieve results and widening assessment of progress in "managing for development results" to cover these broader aspects;

(iii) Accelerating efforts to promote mutual accountability processes at the country level by more clearly defining good practice standards and reinforcing country capacity and leadership;

(b) Incorporate clear practical steps into the framework for aid quality, including by:

(i) Providing additional assistance solely through concessional financial flows for countries, including least developed countries at high risk of incurring unsustainable debt levels, and developing a uniform agreed definition of concessionality;

(ii) Defining clear indicators on multi-year predictability, including commitments and projections of disbursements for at least three years, payments early in the programme country's financial year and measures to enhance "in-year" predictability and to reduce conditionality and procedural barriers to such disbursement;

(iii) Improving international mechanisms for combating exogenous shocks, using larger flexible contingency allowances to respond to changing needs, and increasing support either for ex-ante measures to protect against shocks or for reserve and contingency funds in programme country budgets;

(iv) Setting clear targets for streamlining policy conditionality by focusing on critical development outcomes, basic international norms and standards and fiduciary concerns, as well as ensuring greater flexibility in implementation to avoid stop-and-go aid flows;

(v) Curbing procedural conditions that cause disbursement delays, including financial, institutional and analytical preconditions, and limiting the use of incentives that distort programme country priorities;

(vi) Making all development cooperation agreements, policies and guidelines publicly available in order to facilitate scrutiny by parliamentarians and civil society;

(vii) Ensuring the inclusion of cross-cutting issues in programme country strategies with goals and action plans, that donors fund them fully and that the results are monitored and evaluated.

Country capacity for aid coordination and management

109. With the view of strengthening programme country leadership of aid coordination and management, the international community needs:

(a) Programme countries to develop aid policies with annual targets for alignment by individual donors, improve aid management systems and implement policies by negotiation with donors;

(b) Donors to scale up support to reinforce country capacity in aid analysis, policy, strategy, negotiation and the evaluation of results;

(c) Capacity-building support to be extended beyond core ministries to other central and decentralized government agencies, parliaments and independent audit bodies and civil society organizations;

(d) Enhanced provision at the global level of information on donor practices, policies and procedures so as to empower programme countries to design strategies and negotiate alignment;

(e) Joint diagnosis of the quality of country development strategies and systems for public financial management, procurement and managing for development results in order to enhance ownership of policy changes.

Alignment of development cooperation with global development goals

110. To enhance alignment of development cooperation with the internationally agreed development goals, including the Millennium Development Goals, the international community needs:

(a) Greater focus on mainstreaming, under national leadership, the broader internationally agreed development goals, as well as the Millennium Development Goals, into poverty reduction strategy papers and aid policies, in particular those relating to employment, hunger, social inclusion, human rights, science and technology, sustainable energy, forest protection and biodiversity. In some cases this will require better definition of the internationally agreed development goals and the measures needed to achieve them;

(b) Programme countries to consider preparing costed action plans for wider range of global development goals in order to facilitate action on barriers to progress as well as aid commitments to match them;

(c) Poverty reduction strategy papers and aid policies to match the scope and ambition of the Millennium Development Goals, while encouraging adaptation to individual country priorities;

(d) Development Assistance Committee donors to use the internationally agreed development goals more systematically as a results-oriented planning framework; and programme countries and donors to evaluate more systematically the impact of aid on the achievement of the Millennium Development Goals;

(e) International tools and processes for assessing the effectiveness of national development strategies to focus more closely on planning and results;

(f) The United Nations to periodically assess whether development strategies and aid policies are mainstreaming concrete actions into the design and implementation of policies to achieve the internationally agreed development goals.

Development cooperation architecture

111. To reflect and build on the diversity of the international aid architecture, the international community needs to:

(a) Pursue an internationally agreed definition of what constitutes aid, including the concessionality of financing;

(b) Assess on a regular basis the scale of "multi-bilateral" aid, its underlying causes and whether it is as successful as core multilateral aid in achieving the intended development results;

(c) Conduct periodic analysis of emergency aid and aid provided through civil society organizations in the North and the South;

(d) Assess trends in the scale, scope and quality of different forms of development cooperation, fully recognizing the uniqueness of different actors. Concerning South-South and triangular development cooperation in particular, further analysis could:

(i) Include all significant South-South bilateral and multilateral contributors;

(ii) Assess good practices in areas such as technical and regional cooperation, infrastructure as well as institutional and legal arrangements for managing effective development cooperation programmes;

(e) Encourage contributors to South-South development cooperation to provide more comprehensive data on a voluntary basis. This may include technical support to Governments of the South and enhanced coordination among the agencies concerned in order to bring about an agreement on definitions and on the compilation and processing of information;

(f) Study lessons from successful scaling-up experiences by different actors with the aim of arriving at more widely agreed common practices and standards in order to help programme countries to make the best use of available assistance, including by providing contributors to South-South development cooperation with greater voice in the international debate;

(g) Generate more reliable data on triangular cooperation. Development Assistance Committee donors could report on the percentage of aid contracts executed by institutions outside the Development Assistance Committee and

institutions of the South on the scale of Development Assistance Committee or multilateral organization co-financing of their activities.

Future role of the Development Cooperation Forum

112. The Development Cooperation Forum can make an important contribution to enhanced coherence and effectiveness of development cooperation by:

(a) Providing independent analysis and an opportunity for the exchange of experiences by focusing, inter alia, on:

(i) The gaps and obstacles for national development strategies, aid policies and allocation practices in order to successfully contribute to achieving sustainable development results;

(ii) The scale, scope and effectiveness of assistance provided by non-Development Assistance Committee sources, including through South-South and triangular development cooperation;

(iii) Progress in strengthening aid quality and effectiveness as well as mutual accountability at the global and country level;

(iv) Lessons learned from managing and coordinating newer aid modalities, including countries that have significant experience with direct budget support;

(b) Providing independent analysis on the implications of emerging issues such as policy coherence, climate change and food security on development cooperation;

(c) Strengthening the voice of programme countries, non-Development Assistance Committee development cooperation contributors and other stakeholders, such as parliamentarians and civil society organizations, by supporting inclusive global dialogue on key development cooperation issues;

(d) Focusing its meeting in 2010 on playing an instrumental role in developing a more inclusive framework for guiding effective development cooperation, taking into consideration the concerns of stakeholders.

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High-level segment: annual ministerial review

Letter dated 23 May 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

I have the honour to transmit herewith the national report of Luxembourg for the 2008 annual ministerial review, to be held during the high-level segment of the 2008 substantive session of the Economic and Social Council (see annex).

I would be grateful if you would circulate the present letter and its annex as a document of the Economic and Social Council, under agenda item 2 (c) of the provisional agenda.

(*Signed*) Jean **Olinger**
Chargé d'affaires a.i.

* E/2008/100.

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Annex to the letter dated 23 May 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

[Original: French]

National report of Luxembourg
Implementing the internationally agreed goals and commitments in regard to sustainable development

May 2008

Summary

Part A of the report describes the implementation of Luxembourg's development cooperation policy.

Luxembourg's development cooperation policy has evolved considerably over the past 15 years. Thanks to the efforts of successive governments, Luxembourg's official development assistance (ODA) reached the threshold of 0.7 per cent of gross domestic product (GDP) in 2000, compared with only 0.33 per cent in 1995. Its ODA reached 0.92 per cent of GDP in 2007 and the Government aims to reach 1 per cent in the coming years. Luxembourg's assistance is allocated solely in grant form and is entirely untied.

Luxembourg attaches great importance not only to the quantity but also to the quality of its assistance. As a result, although the volume of its ODA has increased significantly in recent years, its cooperation programme has maintained a policy of geographical concentration, focusing its assistance on 10 partner countries: Cape Verde, Senegal, Mali, Burkina Faso, Niger and Namibia in Africa, Viet Nam and Laos in Asia and El Salvador and Nicaragua in Latin America. At the same time, a policy of sectoral concentration is being pursued, under which priority is given to interventions in the areas of infrastructure and social services, especially education, health, water and sanitation.

The policies of geographical and sectoral concentration apply equally to bilateral projects and programmes and those implemented with multilateral partners, foremost among which are the funds and programmes of the United Nations system. Systematic efforts are made to ensure synergies between bilateral assistance (accounting for 70 per cent of Luxembourg's ODA) and multilateral assistance (30 per cent of ODA), especially in Luxembourg's 10 partner countries.

In the context of the implementation of the Paris Declaration on Aid Effectiveness, adopted in March 2005, Luxembourg's cooperation programme has endorsed the principles of country ownership, alignment and harmonization, in particular. Progress in this area is being assisted by the process of moving closer to the field. In recent years, Luxembourg has set up regional cooperation bureaux enabling it to be more in tune with its partner countries and thus assist them more effectively.

Part B of the report deals with Luxembourg's implementation of the internationally agreed goals and commitments in regard to sustainable development.

At the 2000 Millennium Summit, the international community adopted the Millennium Declaration and the Millennium Development Goals (MDGs) which are its practical expression. The MDGs provide a road map for reducing poverty by 2015 and Luxembourg subscribes fully to them as part of its commitment to development cooperation. The MDGs are thus central to Luxembourg's development cooperation priorities as articulated in part A of the report.

All Luxembourg's cooperation activities are conceived from the standpoint of sustainable development, as defined in the Brundtland Report, in that they contribute to "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Since the 2008 ministerial review is focusing on MDG 7, aimed at ensuring environmental sustainability, the report describes how that goal is being taken into account in the implementation of Luxembourg's development cooperation policy. Part B of the report starts with a description of the practical implementation of MDG 7, taking two examples: natural resources management, one of the two sectors of concentration of the indicative cooperation programme between Luxembourg and Burkina Faso for 2008 to 2012, and Luxembourg cooperation interventions in the water and sanitation sector in several partner countries.

The report then goes on to describe the instruments put in place to ensure that sustainable development principles are integrated in Luxembourg public policy.

Lastly, the report concludes with a description of two new challenges facing sustainable development: climate change and food security. For some years now, Luxembourg's cooperation programme has been supporting developing countries' efforts to adapt to climate change. A decision has been taken to step up these efforts in the coming years, as reflected in the policy statement on cooperation and humanitarian action made to the Luxembourg Parliament on 23 April 2008 by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action. To help ensure food security in developing countries in the face of the current worldwide surge in food prices, Luxembourg has put in place a range of short-term measures. In the medium and long term, its cooperation programme will remain actively involved in integrated rural development alongside its partner countries.

Part A

Implementation of Luxembourg's development cooperation policy

1. Historical background

The essential motivation of the action taken by successive Luxembourg governments in the areas of development cooperation and humanitarian action is to show solidarity with the world's poorest people. As early as 1974, pursuant to the commitment made by the industrialized countries in 1970 at the General Assembly of the United Nations to devote at least 0.7 per cent of their gross national product (GNP) to official development assistance over the next 10 years, the Government of Luxembourg emphasized the crucial importance of human solidarity and pledged to provide increased and better structured assistance.

The sentiment underlying Luxembourg's development cooperation has changed very little over the past 30 years, although the range of instruments and partners through which this cooperation is conceived and implemented has broadened considerably.

The firm commitment made at the 1992 Earth Summit in Rio de Janeiro to increase Luxembourg's official development assistance to 0.7 per cent of GDP by 2000 gave unprecedented impetus to a policy that, since then, has gained steadily in resources, expertise and maturity.

The 6 January 1996 Development Cooperation Act provided the necessary legal and statutory framework. Its establishment of a Development Cooperation Fund, financed from the State budget but freed from the constraints of the principle of annual budgeting, put in place a modern management tool that was adapted to Luxembourg's development cooperation and equipped it to act in the new international context that would begin to take shape in 2000.

Luxembourg's cooperation programme took part in a peer review of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) in 2003 and again in 2007-2008. The main changes that occurred in the intervening period were the result of European and international developments with regard to the quality and volume of official development assistance and included the following:

- The volume of Luxembourg's ODA increased by 60 per cent (at current prices);
- The number of its partner countries remained stable;
- Some programmes entered a phase of consolidation/transition (Namibia, El Salvador, Viet Nam);
- The number of "project countries" was reduced (from 20 in 2003 to 12 at present);
- The network of cooperation bureaux was expanded (to 6);
- Multi-bilateral assistance was better taken into account in indicative cooperation programmes (ICPs) with partner countries;
- Relations with multilateral partners became more structured.

2. Luxembourg's development cooperation strategy

With the successive adoption of the Millennium Declaration and Millennium Development Goals in 2000, the Monterrey Consensus on Financing for Development in 2002 and the Paris Declaration and the final document of the United Nations Summit in 2005, the international community acquired an unprecedented, coherent arsenal of rules, commitments and instruments for combating poverty effectively.

Luxembourg, particularly during its Presidency of the Council of the European Union in the first half of 2005, contributed actively to shaping this new international frame of reference for development cooperation, both at the United Nations and in OECD (Paris Declaration on Aid Effectiveness), as well as within the European

Union (collective EU commitment to increase ODA to 0.56 per cent of GDP by 2010 and 0.7 per cent of GDP by 2015).

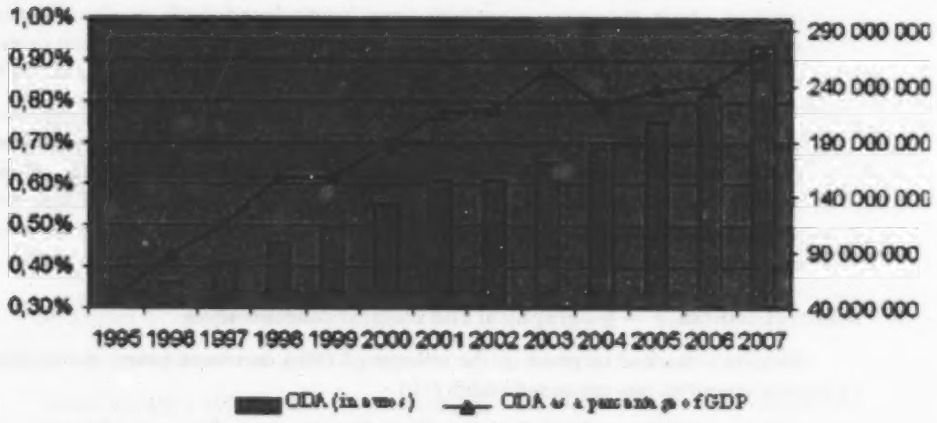
Luxembourg's development cooperation programme currently uses this frame of reference to firmly anchor its own strategic guidelines.

As regards the amount of assistance, the Government's 2004 programme reaffirmed its political will to remain at the forefront of international efforts: "*Luxembourg reached the goal of 0.7 per cent of GDP in 2000, thereby responding to the recommendations made in the framework of the United Nations. It will persevere in its efforts to reach the 1-per-cent threshold in the coming years.*"

In ODA terms, since 2000 Luxembourg has belonged to the group of industrialized countries that devote more than 0.7 per cent of their GDP to development cooperation. In 2007, its ODA totalled 275,140,000 euros, or 0.92 per cent of GDP according to current statistics.

In accordance with OECD criteria, 70 per cent of ODA is devoted to bilateral assistance and 30 per cent to multilateral assistance.

Evolution of Luxembourg's ODA from 1995 to 2007



As regards the quality of assistance, the Luxembourg cooperation programme's 2006 "Strategy and principles" document emphasizes that:

> "*Luxembourg's development cooperation programme is firmly committed to the goal of* ***poverty eradication****, particularly in the least developed countries. Its actions are conceived in* ***the spirit of sustainable development****, understood in its social, economic and environmental aspects and centred on men, women and children. These actions are central to the attainment — by 2015 — of the* ***Millennium Development Goals****. As a result, the main cooperation sectors are in the social sphere: health, education, including vocational training and apprenticeship, and integrated local development. Relevant initiatives in the area of microfinance are encouraged and supported, whether at the design stage or during implementation.*

From a geographical standpoint, in the interests of effectiveness and impact, Luxembourg's cooperation programme pursues a policy of targeted intervention in a limited number of ***selected partner countries****. Six of its 10 development partners, selected primarily on the basis of the composite human development index of the United Nations Development Programme (UNDP), are in Sub-Saharan Africa. Cooperation with these countries is characterized by a keen sense of partnership with national and local authorities.*

This ***spirit of partnership****, combined with a concern to ensure that recipients have ownership of programmes and projects, characterizes the implementation of multi-annual cooperation programmes or* ***indicative cooperation programmes (ICP)*** *(...)*

At the same time, Luxembourg's cooperation programme is actively involved in the discussion and definition of new ***harmonization and quality standards for international development assistance****. It has endorsed the conclusions of the Paris Declaration on Aid Effectiveness: ownership, harmonization, alignment, results and mutual accountability, adopted in March 2005.*

Luxembourg's official development assistance also includes a large ***humanitarian assistance*** *component, understood in the broader context of civilian crisis management, which may be deployed both in the event of natural disasters and in post-conflict situations, from the moment when armed violence ceases until development cooperation activities resume.*

Luxembourg's development cooperation and humanitarian assistance policy has been characterized for over 15 years by ***a sustained, progressive effort, in both qualitative and quantitative terms, for the benefit of the world's poorest people****. It is the expression of an affirmed and confirmed international solidarity and, as such, is an important vehicle for the external activities of the Government of the Grand Duchy of Luxembourg".*[1]

3. Bilateral assistance — geographical and sectoral concentration

Despite a marked increase in the volume of ODA in recent years, the number of partner countries has remained stable (10):

- In Africa (6): Cape Verde, Senegal, Mali, Burkina Faso, Niger and Namibia;
- In Asia (2): Viet Nam and Laos;
- In Latin America (2): El Salvador and Nicaragua.

It should be noted that the Occupied Palestinian Territories receive the same treatment as partner countries.

In keeping with the objective of development cooperation policy, which is to eradicate poverty, most bilateral assistance goes to the least developed countries. The UNDP Human Development Index serves as a benchmark for the selection of partner countries.

[1] "Luxembourg cooperation: strategy and principles", Department of Development Cooperation, 2006 (see http://www.mae.lu/cooperation).

This criterion applies not only to the choice of partner countries but also to the choice of areas of intervention within those countries. Luxembourg's cooperation programme concentrates its support on the neediest regions, identified in cooperation with the authorities and specified in indicative cooperation programmes.

Bilateral assistance to partner countries accounted for some 37 per cent of total ODA in 2007 and some 53 per cent of the bilateral envelope.

With regard to sectoral concentration, it should be noted that two thirds of Luxembourg's bilateral ODA is invested in infrastructure and social services, namely, education (15 per cent, especially secondary education and vocational training and apprenticeship), health (20 per cent, essentially basic health) and infrastructure and other social services (policy in the areas of population/health and fertility, water and sanitation and support for civil society).

A significant portion of bilateral cooperation is devoted to multisectoral programmes and projects in the context of integrated local development. Such programmes and projects may include agriculture, irrigation, health, education, civil society and microfinance components.

Moreover, emphasis is placed on the three crosscutting themes of environment, gender issues and good governance. Part B of this report will deal in greater detail with the issues of environment and climate change.

4. Multilateral assistance

In 2007, multilateral assistance accounted for 30 per cent of total ODA and was composed as follows:

- European Union: 28 per cent
- Funds and programmes of the United Nations system: 37 per cent
- World Bank group: 18 per cent
- Regional development banks: 9 per cent
- Other multilateral agencies: 8 per cent.

Luxembourg's cooperation programme provides support to several specialized agencies, funds and programmes of the United Nations system, with which framework cooperation agreements have been signed. This support takes the form either of voluntary contributions to budgets or thematic priorities or of contributions to national programmes or (multi-bi) projects in Luxembourg's partner countries.

Since the 2003 peer review of the OECD Development Assistance Committee and in the context of the implementation of the 2005 Paris Declaration on Aid Effectiveness, multilateral cooperation programming has evolved along the following lines:

Alignment with geographical priorities: since the introduction of second-generation indicative cooperation programmes (ICPs) in 2006, a 10- to 20-per-cent portion of the total ICP envelope has been reserved for projects or programmes implemented by multilateral agencies in the countries in question. The organizations chosen to implement this envelope are generally selected from among Luxembourg's preferred partner agencies, based on the degree of complementarity

between their programmes and projects and Luxembourg's bilateral cooperation interventions.

Alignment with sectoral priorities: the sectoral priorities established in ICPs are defined in conjunction with the authorities of partner countries. In the interests of coherence and concentration of efforts, multilateral programmes funded within the ICP framework now abide by these sectoral choices.[2]

Multi-year programming and predictability: since Luxembourg's cooperation programme is active in a limited number of sectors, it has long maintained close ties with a small number of multilateral organizations active in these sectors. In order to strengthen its links with these agencies and organizations, make its support more coherent and introduce multi-year — and hence predictable — planning of available financial resources, Luxembourg's cooperation programme signed framework agreements in 2004 with UNDP, the United Nations Population Fund (UNFPA) and the United Nations Children's Fund (UNICEF) and in 2006 with the World Health Organization (WHO). In 2007, in the light of the sectors identified with partner countries within the ICP framework, a decision was taken to expand this group of preferred multilateral partners to include the International Labour Office (ILO) and the United Nations Capital Development Fund (UNCDF). Framework agreements with these organizations are currently in preparation and provide, inter alia, for annual consultations during which progress reports on the period just completed are analysed and the programme of work and budgetary allocations for the coming period are discussed.

5. Implementation modalities

ODA comes entirely from State budget credits — either from specific, annualized budget lines or from the Development Cooperation Fund, which receives an annual allocation from the State budget but is not subject to the principle of annual budgeting with regard to commitments and disbursements. The Fund thus offers several advantages that directly benefit Luxembourg's cooperation partners (bilateral or multilateral):

- *Predictability and long-term action*: the development cooperation programme can plan over several years by establishing a total envelope (as in the case of ICPs with partner countries);
- *Speed and flexibility*: Development cooperation services can react quickly and flexibly in case of need, for instance, when the implementation of a project or programme is delayed or speeded up.

Luxembourg's ODA is allocated solely in grant form,

Luxembourg's approach, taken in agreement with its partners, is to establish in its second-generation ICP priority sectors and financial envelopes covering a five-year period. This approach ensures a high degree of predictability of financial flows in the medium term while permitting full alignment with national sectoral priorities and preserving the necessary flexibility throughout the duration of the ICP.

[2] In Mali, for instance, where basic health and gender issues have been identified as priority ICP sectors, WHO and UNFPA are among the preferred multilateral agencies with which cooperation is established.

In keeping with the spirit and the letter of the Paris Declaration on Aid Effectiveness, Luxembourg's cooperation programme takes the view that the appropriateness of opting for direct budgetary assistance must be weighed on a case-by-case basis, in the light of such criteria as transparency of management mechanisms and actual capacity in social sectors to absorb such assistance. Contributions to sectoral and/or regional funds in some partner countries are currently being considered in the context of the implementation of second-generation ICPs. Luxembourg's cooperation programme is also paying increased attention to capacity-building in governmental and administrative bodies.

Luxembourg's ODA is completely untied. From time to time, its cooperation programme responds to a specific request for emergency food aid from a partner country by making a contribution in kind.

6. Aid effectiveness

Ownership

All Luxembourg's partner countries have put in place national development and poverty reduction strategies, most often in the form of Poverty Reduction Strategy Papers (PSRP) prepared and updated at the instigation of the World Bank and the International Monetary Fund (IMF). Luxembourg's action in its partner countries is based around and supports the implementation of these strategies. Where such mechanisms exist, representatives of Luxembourg's cooperation programme participate in working and coordination groups between donors and national authorities.

With regard to ownership in general and aid effectiveness in particular, some partners are more advanced than others. Viet Nam is a case in point, having adopted a national version of the Paris Declaration — the Hanoi Core Statement.

Alignment

In the 2005 Paris Declaration on Aid Effectiveness, donors undertook to "use country systems and procedures to the maximum extent possible".

ICPs, drawn up jointly with national authorities, are integral to the implementation of national poverty reduction strategies. During the phase of identifying projects and programmes for inclusion in the ICP, national authorities and Luxembourg cooperation officials gauge their complementarity and added value in relation to this frame of reference.

For the partnership between Luxembourg's cooperation programme and its local partner, these strategies, including any that may exist at sectoral level, are the principal frame of reference with the Millennium Development Goals (MDGs).

Harmonization

In recent years, coordination among donors and between donors and national authorities has become a key factor for enhancing aid effectiveness. The importance of donor coordination, especially in the field, was decisive for convincing Luxembourg's cooperation programme to expand its network of regional bureaux and step up its field presence.

Luxembourg's cooperation programme currently has six regional bureaux: Praia (Cape Verde), Dakar (covering Senegal and Mali), Ouagadougou (covering Burkina Faso and Niger), Hanoi (covering Viet Nam and Laos), Managua (covering Nicaragua and El Salvador) and Pristina (Kosovo).

This strengthened field presence allows it to become more closely involved than previously in existing donor coordination mechanisms and to facilitate synergies by means of direct contacts.

For instance, in 2006 donors active in Cape Verde[3] designated Luxembourg's cooperation programme a lead donor in the education sector and, more specifically, for all aspects related to technical education and vocational training. As anticipated, coordination among donors and with the national authorities has intensified since then, inter alia through:

- Regular meetings of the donors represented in Cape Verde and briefings for missions by non-resident donors and agencies;
- Targeted contacts with Cape Verde's technical Ministries;
- Participation on behalf of donors in national and international conferences and seminars.

Following this initial positive experience, Luxembourg's cooperation programme is ready to play a similar role in other sectors or countries, if circumstances permit.

Luxembourg's cooperation programme also supports increased donor coordination and cooperation in the area of monitoring and evaluation. For instance, it co-financed and participated actively in the joint evaluation of the international community's humanitarian efforts in the context of the 2004 tsunami in the Indian Ocean, from which it concluded, inter alia, that it would have been difficult for individual donors to conduct an exercise of that magnitude on their own.

In 2007, Luxembourg participated in the joint evaluation of the Paris Declaration. A joint multisectoral evaluation in the Niger is in preparation with the European Commission, Belgium and France.

7. Cooperation with non-governmental organizations

The funding instruments put in place for cooperation with Luxembourg non-governmental development organizations take account of the latter's diversity in terms of size, own financial contributions and structures.

Thanks to co-financing, Luxembourg's cooperation programme can support individual projects by providing a financial contribution determined by their location. For a project in one of the 10 partner countries, the co-financing rate is 75 per cent, while in other countries the rate is 66 per cent. Most non-governmental organizations opt for this approach, which does not pose any particular strategic requirements.

Non-governmental organizations that have acquired a degree of expertise while maintaining an ongoing relationship with the Ministry of Foreign Affairs may opt for the framework agreement approach. A multi-year agreement establishes

[3] One of the eight pilot countries of the "One UN" reform effort.

cooperation between the Ministry and the non-governmental organization on the basis of a geographically and/or sectorally targeted intervention strategy, a programme of activities and a funding plan that are clearly defined. The Ministry's participation rate may be as much as 80 per cent of the total financial envelope for a period of between two and five years.

There are currently 84 non-governmental development organizations accredited by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg. This number reflects the interest in and commitment to development cooperation shown by Luxembourg public opinion. Most of these organizations have adopted a modus operandi of working closely with civil society structures in the developing countries in which they operate.

Non-governmental organizations are key actors in the efforts made in Luxembourg to educate and raise awareness about development.

In 2007, of the credits granted to non-governmental organization projects and programmes in developing countries, 72 per cent were allocated to 15 framework agreements and 28 per cent to co-financing. Also in 2007, total contributions to national non-governmental development organizations totalled 29.4 million euros, equivalent to around 13 per cent of ODA. Of this amount, 1.3 million euros were spent on raising public awareness in Luxembourg about development cooperation. The Government invested some 320,000 euros in its awareness-raising activities in 2007.

Part B

Implementing the internationally agreed goals and commitments in regard to sustainable development

1. Introduction

At the 2000 Millennium Summit, the international community adopted the Millennium Declaration and the Millennium Development Goals (MDGs) which are its practical expression. The MDGs provide a road map for reducing poverty by 2015 and Luxembourg naturally subscribes to them fully as part of its commitment to development. The MDGs are thus central to Luxembourg's development cooperation priorities as articulated in part A of the report.

All Luxembourg's cooperation activities are conceived from the standpoint of sustainable development, as defined in the Brundtland Report, in that they contribute to "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

This definition introduces three components — environmental, social and economic — that must interact in order to improve living conditions throughout the world, above all in the developing countries, while respecting the limits imposed by ecosystems' absorptive capacity. These three components are also at the heart of Luxembourg's development cooperation activities, as demonstrated in part A of this report.

While the 2007 progress report on the implementation of the MDGs was generally muted, the issue of environmental sustainability has grabbed headlines in

recent months, as the inevitability of climate change arouses global awareness of the environment's vulnerability and the need for action. Taking on board the concept of sustainable development should thus permit a model of economic and social development in developing countries that respects the environment. The imperatives of sustainable development must also be integrated in all developed countries' policies.

Since the 2008 ministerial review is focusing on MDG 7, this part of the report describes how that goal is being taken into account in the implementation of Luxembourg's development cooperation policy. Starting with a description of the practical implementation of MDG 7, aimed at ensuring environmental sustainability, it goes on to describe the integration of sustainable development principles in Luxembourg policy, then concludes with a description of the new challenges facing sustainable development that will need to be tackled.

2. Implementation of MDG 7 by Luxembourg's cooperation programme

(a) *Integration of the environmental dimension in Luxembourg's development cooperation policy: example of cooperation with Burkina Faso*

Pursuant to the 6 January 1996 Development Cooperation Act, article 4 of which provides for cooperation in regard to the environment in order to promote "the sustainable economic and social development of developing countries, particularly the most disadvantaged countries" (article 1 of the same Act), Luxembourg's cooperation programme takes environmental concerns into account across the whole range of programmes and projects that it implements.

Environmental subjects can thus be an element of the political dialogue conducted at ministerial level between Luxembourg and its partner countries, just as they form part of exchanges between Luxembourg's regional bureaux in partner countries and the administrations of those countries. Luxembourg's development cooperation executing agency, Lux-Development S.A., takes the environmental dimension into account in putting Luxembourg's development cooperation policy into practice and attaches binding environmental criteria to its specifications and tenders.

Realizing that environmental issues cannot be resolved at national level alone, Luxembourg has made multilateral actors, notably United Nations funds and programmes, its partners of choice for putting this cross-cutting priority into practice. One example of this is Luxembourg's constant and growing support in recent years for the Global Environment Facility managed by UNDP.

In addition to making MDG 7 a cross-cutting priority, Luxembourg can also undertake more targeted interventions. In the context of its general strategic guidelines and pursuant to the Paris Declaration on Aid Effectiveness and the European Union Code of Conduct on Complementarity and Division of Labour in Development Policy, Luxembourg's cooperation programme provides environmental assistance if this corresponds to the needs of the partner country, as expressed in its national development strategy, and if other donors are not already involved in this sector.

Burkina Faso is definitely the best example of this: under the ICP concluded for the years 2008 to 2012, Luxembourg's cooperation programme targets natural

resources management as one of the indicative cooperation programme's two sectors of concentration.

Such targeting is based on the recognition that there are many current constraints on the sustainable management of natural resources in Burkina Faso and that, despite the not inconsiderable results achieved on the ground, there are still shortcomings, notably as regards the medium- and long-term vision and the institutional, statutory and operational framework.

Confronting the challenges of sustainable development in Burkina Faso therefore involves the formulation of a coherent environmental policy based on: (i) a clear medium- and long-term vision of the occupancy and use of rural areas (agriculture, forestry, fauna, etc.); (ii) optimum, sustainable use of natural resources; (iii) participatory management; and (iv) land and food security.

Burkina Faso's Ministry of the Environment thus faces three major challenges in the coming years:

- Instituting sustainable systems for managing the environment and safeguarding biodiversity;
- Improving the living environment of urban and rural populations;
- Fulfilling and upholding international commitments and promoting sustainable development.

In addition to providing more specific assistance to a programme in support of participatory natural resources management in the Hauts Bassins region and the development and use of carrier species such as *Jatropha curcas* (which offers significant energy potential without threatening food security, being a plant that does not form part of the food cycle and that grows in arid zones), Luxembourg's cooperation programme provides support for the development and implementation of the national programme for sustainable forestry resources management.

The aims of the proposed support for the development and implementation of the national programme for sustainable forestry resources management are to:

- Encourage local populations and authorities to adopt sustainable forestry resources management;
- Promote sustainable and participatory forest management in the areas concerned;
- Develop income-generating activities and sustainable jobs with local populations;
- Help build the different actors' capacities for sustainable, decentralized forestry resources management;
- Help develop synergies among the different agencies involved in sustainable forestry resources management.

The programme will be implemented through the following four priority lines of action:

- Improving knowledge of national forestry resources;
- Building participants' capacities;

- Increasing and diversifying forestry production;
- Strengthening the legal and institutional framework for sustainable forestry resources management.

Combating poverty while protecting the environment in Burkina Faso

Mariame Drabo, 44, is married and has five children. Up until 2003, she cut wood illegally in the Dinderesso forest reserve. Her husband, being unemployed, was no longer able to meet the family's needs and the illegal resale of the cut wood was their only means of survival. Setting out very early in the morning, Mariame covered up to 40 kilometres a day with her bundle of wood on her head.

The Luxembourg cooperation programme's project for the participatory development of the Dinderesso and Kou forest reserves (PAFDK) was launched in 2002. As Mariame tells it:

> *"In May 2003, the project team surveyed all the women who had been cutting wood illegally. With the support of the project adviser, we organized into 12 associations with a total membership of 450 women. Each association had chosen to set up alternative income-generating activities.*
>
> *I now sell firewood legally in Bobo-Dioulasso. With the project's support, I was able to access microcredit to expand my business. I have also taken a lot of training courses: literacy training in the national language Dioula and training in the management of associations, the building of improved homes and the management of small business and agro-forestry. My women friends have taken other income-generation training courses, such as dyeing, weaving, sewing, soap and shea butter manufacturing, cashew nut processing, catering, etc.*
>
> *I have learnt to plant and maintain a tree and I am involved in the project's reforestation activities. We women used to cut wood illegally, but now we have regained our dignity and become fully-fledged project partners."*

The Yanta ("moving ahead") Union was set up in August 2006 as Luxembourg's cooperation partner for the new natural resources management project, 2006-2011. Mrs. Drabo was elected president of the Union, which brings together 30 women's associations with a total membership of over 2,000.

Yanta's aim is to combat poverty by improving its members' living conditions and protecting the environment.

* * *

Burkina Faso's Ministry of the Environment, which is in charge of natural resources management, drew up a framework programme for sustainable forestry resources management for the years 2004 to 2014. The country's national policies emphasize the importance of poverty reduction through the principle of "sustainable natural resources management, reconciling the demands of economic growth with the imperatives of preserving ecosystem balance for present and future generations".

From 2006 to 2011, Luxembourg is funding the natural resources management project in the Bobo-Dioulasso basin for a total of 5,956,729 euros. Natural resources management is one of the two sectors of concentration of the indicative cooperation programme (ICP) between Luxembourg and Burkina Faso for 2008 to 2012. The

total ICP envelope is 62,900,000 euros. From the brochure *"La coopération ça marche!" (cooperation works) produced by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg, Department of Development Cooperation (April 2008).*

Another practical illustration of Luxembourg's efforts to fulfil its commitments under MDG 7 is the concentration of its cooperation activities on the water and sanitation sector.

(b) Luxembourg's cooperation activities in the area of water and sanitation

Supporting development activities in the area of water and sanitation has been one of the priorities of Luxembourg's cooperation programme for many years — a choice based on exchanges with the authorities of partner countries and on the needs identified in their national poverty reduction strategies. For all Luxembourg's partner countries, access to water and sanitation is a vitally important issue, either generally because of stress on water supplies nationwide (Cape Verde, Sahelian countries of West Africa) or because difficulties with regard to water supply and access to sanitation vary according to region or standard of living.

The reasons for this commitment are manifold. The fact that water is quite simply essential to our survival should be reason enough, but there are other elements too: without access to water and sanitation, developments in the health area cannot be lasting; water is essential for agriculture, which is by far the main means of subsistence in developing countries, particularly in Africa; and, lastly, water permits the preservation of ecosystems and the problem of access to water is a potential source of instability and insecurity and therefore a potential threat to some of the advances achieved in development, not to mention its geopolitical repercussions.

Luxembourg's cooperation programme does not have a uniform response to this problem. Instead, it looks at the local context and opts for one or other course of action on the basis of observed needs on the ground. The example of a water project in the Niger, described below, sheds light on the different elements involved and their socio-economic and health implications.

Access to drinking water promotes socio-economic development in rural areas of the Niger

Until recently, the village of Chikafane was one of many in the Dosso department of the Niger where drinking water is neither available nor accessible year-round. This village of 350 people, situated in Mokko commune in the far north of the department, has just got its first modern water point: a large-diameter, concrete well.

> "*Water has always been a huge problem in this village and all it had was a traditional well over 60 metres deep*" village chief Attani Goumey explains, adding that "*before this new concrete well was installed, we were able to meet only a tiny fraction of our water needs. As early as February, we had to travel to neighbouring villages or even to Batako, over six kilometres away, to fetch water for our families' needs. Men, women, everyone was mobilized to fetch water.*"

Fetching water took up a large part of the villagers' time, preventing them from spending it on other socio-economic, income-generating or sociocultural activities. The water problem was also the main constraint on the development of livestock rearing, despite the village being situated in a pastoral area.

According to 37-year-old Amadou Hamani, a peasant farmer in Chikafane, "*the acute shortage of water caused some families to consider migrating south, despite their attachment to the soil.*

With nothing but our traditional well, which was already nearly 50 years old and a nesting place for bats and birds, we were using muddy, unhealthy water, with serious consequences for the community's health."

The building of a concrete well has breathed new life into the village of Chikafane, supplying the population with adequate, safe water all year round.

* * *

The well was built as part of the land development project in Dosso department, drinking water supply being one of the priorities of the Niger's second poverty reduction strategy and hence an important component of Niger-Luxembourg cooperation activities in that department.

In addition to providing access to drinking water, the project helps ensure rural people's access to economic and social opportunities by improving natural resources management and building the capacity of public and private institutions and also rural organizations. For 2005-2009, Luxembourg's contribution to this project totals 8,459,556 euros.

From the brochure "La coopération ça marche!" produced by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg, Department of Development Cooperation (April 2008).

Water and sanitation activities are being supported in all Luxembourg's partner countries, most frequently as a component of a broader programme of integrated rural or urban development.

In this connection, particular mention should be made of the programme to improve the urban environment in Bamako, Mali. This programme, which includes a water and sanitation component, seeks to improve the broader urban environment and generally involves cleaning up unhealthy urban spaces and enhancing people's well-being by reducing the risk of disease.

2. *Integration of sustainable development principles in Luxembourg policy*

Policy formulation from a sustainable development standpoint is not feasible if each actor works in isolation, cut off from all outside influences.

In recognition of this fact and pursuant to the commitments made at the 1992 Earth Summit and the 2002 World Summit on Sustainable Development, Luxembourg put in place by act of 25 June 2004 a legislative framework for sustainable development that established an institutional structure and designated a number of instruments in order to ensure that sustainable development principles were better integrated in Luxembourg public policy.

The instruments defined by the act are a national sustainable development plan and a national progress report on sustainable development.

The national plan, drawn up every four years, specifies priority areas of action, practical objectives and the action to be taken with a view to sustainable development. The national progress report on sustainable development, drawn up every two years, describes Luxembourg's situation with regard to sustainable development and helps to draw lessons from past experience, whether positive or negative. Sustainable development indicators contained in the report are used to measure the progress made in sustainable development.

In addition to the Government, which is responsible for implementing the national plan, and the Parliament, which takes note of the national plan and the national report, two other organs created by the 2004 act are concerned with sustainable development.

The first of these is the Higher Council for Sustainable Development, responsible for considering, discussing and advising on sustainable development. It is composed of representatives of the Government, communes, trade unions, professional associations, employers, non-governmental organizations, the scientific community and the national ethics committee.

The second organ is the Interdepartmental Commission on Sustainable Development, composed of representatives of each ministerial department. It prepares the preliminary draft national plan and the national report and ensures that sustainable development principles are integrated in the different sectoral policies.

Lastly, civil society is actively involved in this process and is consulted regularly.

It should also be mentioned that an inter-ministerial committee on education for sustainable development has just been set up in Luxembourg to ensure that sustainable development issues are integrated more effectively in school curricula and courses.

Representatives of the Minister for Cooperation and Humanitarian Action participate actively in all these consultation mechanisms to ensure that Luxembourg public policy does not hinder the attainment of the MDGs.

Confronting the new challenges to sustainable development

(a) Climate change

Rapid environmental degradation and the steady loss of natural resources, as well as the growing challenges posed by climate change, require that public actors take a position on the issue.

The situation is even more pressing for developing countries, which are liable to suffer disproportionately from phenomena triggered by climate change when they are the ones least responsible for it. Unless swift, far-reaching action is taken, the situation could rapidly become intolerable for developing countries, especially insofar as food security and the increasing frequency of ever more extreme meteorological phenomena are concerned.

For some years now, Luxembourg's cooperation programme has been supporting developing countries' efforts to adapt to climate change. A decision has

been taken to step up these efforts in the coming years, as reflected in the policy statement on cooperation and humanitarian action made to the Luxembourg Parliament on 23 April 2008 by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action.

Climate change and development

The Hyogo Framework for Action 2005-2015 was adopted in January 2005 and its signatories, including Luxembourg, undertook to help ensure that people were better protected against future disasters and to analyse and reduce risk factors, particularly in developing countries. It is in this spirit that since 2006 Luxembourg's cooperation programme has invested a minimum of 5 per cent of the humanitarian budget in disaster prevention.

(...)

Furthermore, at the beginning of this year, Luxembourg's cooperation programme decided to integrate issues of adaptation to climate change systematically in its development programmes. This does not mean that Luxembourg's programme is going to invent a new sector to add to its traditional sectors of water, health, education and integrated rural development, but rather that, in future, each new project will first be scrutinized to determine its potential impact on climate and its climate compatibility.

Of course, this will not happen overnight. On the other hand, we can rely on the fact that environmental questions have for years now been part of what are referred to as cross-cutting cooperation issues.

In other words, we have always analysed and integrated the environmental component in our different projects, so there is no need to start from scratch. We are going to systematize and expand this approach, placing particular emphasis on the climate and natural disasters components.

(...) I deeply regret that it does not appear possible to transform the United Nations Environment Programme into a genuine United Nations agency. No matter how important global or other alliances and mechanisms may be for climate, as long as there is no breakthrough at the United Nations — see also post-Kyoto and Bali — it will be very difficult to coordinate efforts adequately.

(...) There must be a closer interaction between environment policy and development policy.

We need climate justice. That too is part of international solidarity and demands efforts.

Along with others, I shall devote myself to the search for international solutions and to putting in place partnerships that will benefit developing countries, in anticipation of the 2009 Copenhagen conference.

From the "Policy statement on cooperation and humanitarian action" made by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action, to the Chamber of Deputies of the Grand Duchy of Luxembourg on 23 April 2008.

Adapting to climate change is only one aspect of what needs to be done — direct action also needs to be taken to combat this phenomenon. Accordingly, in 1997 at Kyoto, Luxembourg pledged to reduce its greenhouse gas emissions by

28 per cent from 1990 levels between 2008 and 2012. Both the Chamber of Deputies and successive governments have upheld this ambitious project, recognizing both the need to tackle climate change and the important contribution that Luxembourg will have to make, given that its per capita greenhouse gas emissions are among the highest in the world.

A plan of action has been drawn up containing all kinds of measures to help Luxembourg meet these targets. It comprises a whole range of national measures, but also provides for recourse to the so-called "flexibility" mechanisms established in the Kyoto Protocol. An inter-ministerial committee issues opinions on initiatives evaluated for funding under these mechanisms. A representative of the Minister for Cooperation and Humanitarian Action also sits on the committee and, inter alia, issues opinions on projects implemented in the framework of the Clean Development Mechanism.

(b) Food security

Global population growth, the effects of climate change and other factors such as the growing interest in biofuels, as well as speculation, are all exacerbating the food security situation, thereby threatening the survival of the developing countries' most disadvantaged population groups.

Luxembourg, which has been involved in integrated rural development for many years now, has taken a number of steps to help ensure food security in the developing countries in the short term, but also in the longer term.

The first step was to increase by at least 50 per cent programmes designed to strengthen food security in Luxembourg's five partner countries in West Africa (Burkina Faso, Cape Verde, Mali, Niger and Senegal), which are among the countries where the situation could deteriorate the most.

The next step was the announcement, in Minister Schiltz's policy statement on cooperation and humanitarian action made to the Chamber of Deputies on 23 April 2008, of four key measures for overcoming the problem of food security, which are detailed below.

Four measures for overcoming food insecurity

1. Successfully conclude the Doha Round, in the interest of development. The principle whereby each continent has the right to organize its agricultural system as it sees fit must be decisive for the outcome of the negotiations.
2. Review, rebalance, reorganize and reduce all decisions on biofuels.
3. Invest tangibly, multifunctionally and sustainably in agriculture in developing countries, according a key role to biodiversity.
4. Make the connection between the challenges of climate change and those of development.

Achievements of Luxembourg's cooperation programme, for instance, integrated local development in the Ségou and Yorosso regions of Mali or the Dosso region of the Niger, where agriculture always plays a fundamental role, are already contributing to the goal of guaranteeing food security.

Lastly, Luxembourg's cooperation strategy in the area of humanitarian assistance, based on the three pillars of prevention, emergency assistance and transition to development, offers the necessary flexibility for integrating action to combat or, as the case may be, prevent the effects of climate change and food insecurity.